

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CHARTER TOWNSHIP OF OSCODA	County IOSCO
Fiscal Year End 12/31/2005	Opinion Date 02/27/2006	Date Audit Report Submitted to State 05/24/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stephenson, Grack & Co., P.C.		Telephone Number (989) 362-4491	
Street Address 325 Newman Street, P.O. Box 592		City East Tawas	State Zip MI 48730
Authorizing CPA Signature 	Printed Name Donald W. Brannan		License Number 1101021039



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

CHARTER TOWNSHIP OF OSCODA
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2005

AUDITORS' REPORT

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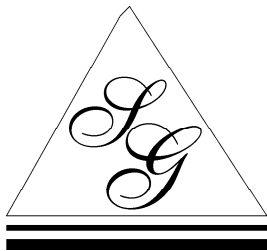
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Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 27, 2006

Independent Auditors' Report

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda, Iosco County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Charter Township of Oscoda's basic financial statements, as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda, Iosco County, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2006, on our consideration of the Charter Township of Oscoda's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Members of the Township Board
Charter Township of Oscoda
February 27, 2006
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Oscoda's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Grunth & Co., P.C.



Charter Township of Oscoda
110 S. State Street
Oscoda, Michigan 48750

Office of the Supervisor: (989) 739-3211

Office of the Clerk: (989) 739-4971

Office of the Treasurer: (989) 739-7471

Office of the Superintendent: (989) 739-8299

Fax: (989) 739-3344

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Charter Township of Oscoda's (the Township) financial performance provides an overview of the Township's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. The discussion focuses on the Township's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Financial Highlights

- The Township's assets exceeded its liabilities by \$23,853,688.
- The Township's total net assets decreased by \$229,778.
- The Township's governmental funds reported a combined ending fund balance of \$4,299,600 this year, a decrease of \$154,496. Of this amount, \$3,371,215 is available for spending (*unreserved fund balance*) on behalf of its citizens. The Township General Fund 2005 year end *fund balance* is \$1,332,649.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, all capital assets and infrastructure are listed under GASB 34 for the Charter Township of Oscoda. These assets are comprised of buildings, furniture and fixtures, radios/electronic equipment, computer systems, vehicles, land, and infrastructure (water and sewer lines) owned by the Township. These assets total over \$24 million. Township management and staff performed a department-by-department inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

In addition, within this report, 2005 property taxes that will be received in the future are listed as *taxes receivable* and as *deferred revenue*.

The Township's component unit is the Charter Township of Oscoda Downtown Development Authority. This component unit is described in the *Notes to the Financial Statements*. The component unit is separate and may buy, sell, lease, and mortgage property in their own name, and can sue or be sued in their own name.

The Charter Township of Oscoda Downtown Development Authority displays assets totaling \$312,278 comprised of cash and cash equivalents.

Fund Financial Statements

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund - This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Police Fund - This fund accounts for the revenues and expenses required to operate the Township Police Department. The primary sources of revenue are contributions from the General Fund, in the case of Oscoda Township, and monthly payments from AuSable Township.
- Property Operation and Maintenance Fund - This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts of base property as well as other miscellaneous income including grants as they might become available.
- Office of Economic Adjustment Fund - This fund accounts for revenues and expenses related to community and economic development activities on the former Wurtsmith Air Force Base.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the Township's major enterprise funds:

- Sewage Disposal System Fund - This fund accounts for the revenues and expenditures required to operate the Township's sanitary sewer system including the new lagoon facility at the former Wurtsmith Air Force Base and all related appurtenances such as mains and pump stations. Revenues required to operate the system are derived primarily from user fees. This fund also accounts for revenues and expenditures relating to processing of septage delivered by local haulers. This subject has been under study by the Township for some time as to identifying an appropriate location and charging methodology. At fiscal year end no final decision regarding this topic had been made.

- Water Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Oscoda as well as the Township's financial participation in the Huron Shore Regional Utility Authority. Like the Sewer Fund, revenues are derived primarily from user fees.
- Old Orchard Park Fund - This fund was created when the Township acquired leasehold interest in the Old Orchard Park property from Consumers Energy and began operating the campground. The fund normally generates a net positive cash flow which is available to support governmental functions through inter budgetary transfers.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements. The notes to financial statements are presented in Exhibit K of this report.

Charter Township of Oscoda Downtown Development Authority related financial data is included throughout the notes to financial statements .

Other Information :

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government -Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the Charter Township of Oscoda at December 31, 2005 and 2004:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Current Assets	\$ 4,862,889	\$ 3,790,613	\$ 8,653,502	\$ 9,278,316
Restricted Assets	919,365	1,176,258	2,095,623	2,558,481
Capital Assets – net	7,759,419	7,490,759	15,250,178	15,471,445
Other Noncurrent Assets	<u>348,244</u>	<u>4,371,964</u>	<u>4,720,208</u>	<u>4,668,491</u>
Total Assets	<u>13,889,917</u>	<u>16,829,594</u>	<u>30,719,511</u>	<u>31,976,733</u>
Current Liabilities	1,786,319	211,064	1,997,383	1,585,538
Long-Term Liabilities	<u>312,904</u>	<u>4,555,536</u>	<u>4,868,440</u>	<u>6,307,729</u>
Total Liabilities	<u>2,099,223</u>	<u>4,766,600</u>	<u>6,865,823</u>	<u>7,893,267</u>
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	7,555,365	4,900,759	12,456,124	11,306,366
Restricted	928,385	1,176,258	2,104,643	2,569,998
Unrestricted	<u>3,306,944</u>	<u>5,985,977</u>	<u>9,292,921</u>	<u>10,207,102</u>
Total Net Assets	<u>\$ 11,790,694</u>	<u>\$ 12,062,994</u>	<u>\$ 23,853,688</u>	<u>\$ 24,083,466</u>

Summary of Changes in Net Assets:

Generally speaking, the Township's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The Charter Township of Oscoda, through its governing body, i.e., Township Board of Trustees, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Township Board of Trustees has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the Township's practice, in general, to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	Governmental Activities	Business-Type Activities	Total December 31, 2005	Total December 31, 2004
Program Revenues:				
Charges for Services	\$ 513,321	\$ 2,576,627	\$ 3,089,948	\$ 3,345,324
Operating Grants and Contributions	408,512	0	408,512	20,436
Capital Grants and Contributions	<u>0</u>	<u>23,543</u>	<u>23,543</u>	<u>594,861</u>
Total Program Revenues	<u>921,833</u>	<u>2,600,170</u>	<u>3,522,003</u>	<u>3,960,621</u>
General Revenues:				
Property Taxes	1,226,266	0	1,226,266	1,180,260
State Revenue Sharing	610,459	0	610,459	594,723
Rent Income	241,632	52,632	294,264	339,209
Investment Earnings and Miscellaneous	<u>307,231</u>	<u>160,708</u>	<u>467,939</u>	<u>427,776</u>
Total General Revenues	<u>2,385,588</u>	<u>213,340</u>	<u>2,598,928</u>	<u>2,541,968</u>
Total Revenues	<u>3,307,421</u>	<u>2,813,510</u>	<u>6,120,931</u>	<u>6,502,589</u>
Program Expenses:				
General Government	976,779	0	976,779	900,484
Public Safety	1,210,431	0	1,210,431	1,128,829
Public Works	185,995	0	185,995	154,444
Community and Economic Development	1,339,733	0	1,339,733	585,350
Recreation and Cultural	270,674	0	270,674	264,749
Other	0	0	0	17
Interest on Long-Term Debt	12,383	0	12,383	16,507
Sewage Disposal System	0	771,678	771,678	711,761
Water Services	0	850,515	850,515	926,402
Housing	0	2,837	2,837	19,991
Old Orchard Park	0	611,431	611,431	567,215
Community Center	0	118,253	118,253	134,275
Exposition Center	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,481</u>
Total Program Expenses	<u>3,995,995</u>	<u>2,354,714</u>	<u>6,350,709</u>	<u>5,416,505</u>
Increase (decrease) in Net Assets Before Transfers	(688,574)	458,796	(229,778)	1,086,084
Transfers	<u>658,329</u>	<u>(658,329)</u>	<u>0</u>	<u>0</u>
Change in Net Assets	(30,245)	(199,533)	(229,778)	1,086,084
Beginning Net Assets	<u>11,820,939</u>	<u>12,262,527</u>	<u>24,083,466</u>	<u>22,997,382</u>
Ending Net Assets	<u>\$ 11,790,694</u>	<u>\$ 12,062,994</u>	<u>\$ 23,853,688</u>	<u>\$ 24,083,466</u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$921,833 from *Charges for Services and Operating Grants and Contributions*. The *Charges for Services* are fees mainly associated with the collection of property taxes, fine and forfeitures, and licenses & permits. While revenue collected is substantial, operating expenses totaled \$3,995,995 for these same activities. The largest expenses were incurred by Community and Economic Development (\$1,339,733) and Public Safety (\$1,210,431).

Business-Type Activities

The Township's main *Business-Type activities* are the Sewage Disposal System, Water Services, and Old Orchard Park. The Township Park has long proven itself to be a *net* revenue generator and for 2005 it netted \$108,565. Activities in the Sewer Fund from an operational perspective settled into a "status quo" mode as compared to previous years due to completion of the Wurtsmith sewer lagoon reactivation project. However, a significant impact on the sewer fund in Fiscal Year 2005 occurred when the 1973 bond issue was paid off requiring a cash outlay of almost 1.2 million dollars. This is the bond that caused the Township to levy a millage in the past to help offset debt retirement costs. In 2005 the Township hired a leak detection contractor in an effort to reduce water loss and, therefore, expenditures incurred for purchasing water from the Huron Shores Regional Utility Authority. This effort resulted in identification of numerous leaks, a number of which were significant in terms of estimated volume. Water loss efforts are important because the Township, and thus the water system and its customers, are billed for water from the Huron Shores Regional Utility Authority upon delivery and receive no revenue for it if it is "lost". The Township also initiated a contract with a new water meter supply company in conjunction with the ongoing meter change out program. Again, this step is important in addressing water loss issues.

Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue; 2) Police Fund – This fund accounts for the revenues and expenses required to operate the Township Police Department. The primary sources of revenue are contributions from the General Fund, in the case of Oscoda Township, and monthly payments from AuSable Township; 3) Property Operation and Maintenance Fund – This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts of base property as well as other miscellaneous income, including grants as they might become available; and 4) Office of Economic Adjustment Fund – This fund accounts for revenues and expenses related to community and economic development activities on the former Wurtsmith Air Force Base.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

This year's Township audit shows 22 funds. These funds are maintained by the Township Treasurer as separate units in the General Ledger.

Significant Fund Activity

General fund activity in Fiscal Year 2005 included converting the Township Board meeting room in the Township Hall to training and vehicular storage space to meet Fire Department needs. A contractor was hired to complete this work while Township employees, for the most part, tackled the job of remodeling the space formerly occupied by Flagstar Bank in the State Street Square building to convert it for use as a Township Board meeting room. The Township also became involved in several road improvement projects including resurfacing efforts on Huntington Drive, Sherwood Drive and Dwight Street. Several budgeted major expenditures did not occur due to the lack of available grant funding. Specifically, funds had been sought to study the feasibility of developing a harbor at the Oscoda Beach Park as well as acquiring a new fire truck.

Some major upgrades in technology took place in 2005 that affected the Police Department. These included the installation of in-car cameras, acquisition of new 800 MHz radio equipment that is intended to allow regional communication and installation of vehicle locating equipment. Funding was made available to offset the cost of this equipment, for the most part, through grants or contributions from the community.

During Fiscal Year 2005 the former commissary building on Wurtsmith Air Force Base, which is accounted for in the Property Operations and Maintenance Fund, was the subject of much discussion and negotiation. An agreement was struck between the Township and American BOA for termination of what had been a multi year lease arrangement while, at the same time, an agreement was made with a new buyer, Oscoda Industries, for outright purchase of the property. This transaction should be completed in early 2006.

Enterprise Funds

The Township's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, departments such as the Old Orchard Park, Housing, and Water and Sewer services comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I.

Significant Fund Activity

The fishing pier at Old Orchard Park, which was funded in part by a Habitat Improvement Grant, was completed in Fiscal Year 2005. This work was undertaken by Township staff members and its completion represented a significant accomplishment given the size and scope of the undertaking. Efforts also continued to complete the modern campsite expansion project which was initiated in 2004. This project is intended to create approximately forty additional modern campsites thereby generating additional revenue at the park facility. Although there are numerous significant capital needs identified for Sewer Fund operations, major expenditures did not occur to address these needs in 2005. Instead, as referenced earlier in this narrative, the 1973 bond issue was paid off. Now that this decision has been made consideration as to prioritizing and appropriately funding outstanding capital needs will be undertaken. In reference to the Water Fund, as also mentioned earlier in this narrative, the Township opted to focus upon water loss prevention through engaging the services of a leak detection contractor and entering into an agreement with a new water meter vendor which required a substantial purchase of equipment initially. These efforts, coupled with those of the Huron Shores Regional Utility Authority, are intended to reduce system wide water loss thereby controlling cost for all system customers.

Budgetary Highlights

Fiscal Year 2005 saw the General Fund balance increase from \$1,330,925 to \$1,332,649. This indicates that revenues, sales of capital assets and operating transfers exceeded expenditures and operating transfers out on a minimal basis. The expenditures did include a capital outlay in excess of \$162,000 due primarily to remodeling of the Township Hall Board meeting room to meet Fire Department needs. The largest single transfer out of the General Fund is Oscoda Townships' contribution for police services based upon the cost sharing agreement with AuSable Township. Sewer Fund cash reserves were significantly depleted by prepayment of the 1973 bond issue with unrestricted cash totaling about \$442,000 at years' end. In addition, the sum of approximately \$515,000 is held by Iosco County in unexpended bond proceeds. These monies can be used for future debt retirement and eligible capital improvement projects. Old Orchard Park Fund had a positive operating income of \$90,500 while net assets were reduced overall by \$64,757 due primarily to operating transfers to other funds.

Capital Asset and Debt Administration

Capital Assets

Capital assets are defined by the Township as assets with an initial individual cost of more than \$7,500 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$10,073,492 with an ending balance of \$10,256,744. Governmental Activities Total Capital Assets – Net of Depreciation was \$7,759,419.

Capital Assets - Business Type Activities beginning balance was \$14,292,507 with an ending balance of \$14,385,859. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,490,759. An expanded and detailed presentation may be seen in Note 5 of the notes to financial statements.

Long-Term Debt

The Long-Term debt of the Charter Township of Oscoda, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the Township Board of Trustees.

The most significant debt issues impacting the Township recently include the issuance of bonds to finance the sewer lagoon reactivation project, prepayment of water system bonds that facilitated, in part, the ability to reduce the readiness to serve charge for water customers and prepayment of the 1973 Sewer Bonds.

At year's end, long-term debt (due in more than one year) amounted to \$4,274,614. Such debt includes *Land Contract Payable*, *Contracts Payable*, *Bonds Payable*, *Capital Lease Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

Economic Factors

As noted in last years' audit, the Township General and Police Funds are challenged by the significant reduction in state shared revenues which has occurred in recent years (from approximately \$1,160,000 in Fiscal Year 2000 to about \$600,000 currently). Fortunately, growth in local tax base has generated revenues which partially offset this decline. However, the need continues to identify and pursue additional revenue sources with a minimal impact on taxpayers. Thus, a continuing focus is likely to remain on income producing concepts involving campground user fees and the like. In the base reuse arena a significant potential liability was eliminated in 2005 when funding was provided for demolition of the multi-family housing structures and various other buildings. Securing these monies places the Township in a more stable fiscal position moving forward from a base reuse perspective.

Component Units

Complete financial statements for the Charter Township of Oscoda Downtown Development Authority may be obtained from the Charter Township of Oscoda Treasurer's office.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charter Township of Oscoda Superintendent, 110 S. State Street, Oscoda, Michigan, 48750.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF NET ASSETS
December 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<u>Assets</u>				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 1,231,727	\$ 914,354	\$ 2,146,081	\$ 312,278
Investments (Note 2)	1,792,934	2,686,276	4,479,210	0
Receivables:				
Taxes (Note 4)	1,336,157	0	1,336,157	0
Accounts, net	16,098	185,246	201,344	0
Special assessments	282,458	0	282,458	0
Due from local units	16,295	0	16,295	0
Due from fiduciary funds (Note 3)	29,788	0	29,788	0
Due from federal	49,590	0	49,590	0
Due from state	110,209	0	110,209	0
Internal balances	(2,367)	2,367	0	0
Inventory	0	2,370	2,370	0
Total current assets	<u>4,862,889</u>	<u>3,790,613</u>	<u>8,653,502</u>	<u>312,278</u>
Restricted assets:				
Cash and cash equivalents (Note 2)	165,905	8,784	174,689	0
Cash held in escrow (Note 2)	0	515,389	515,389	0
Investments (Note 2)	753,460	652,085	1,405,545	0
Total restricted assets	<u>919,365</u>	<u>1,176,258</u>	<u>2,095,623</u>	<u>0</u>
Noncurrent assets:				
Land contracts receivable	348,244	0	348,244	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	4,326,440	4,326,440	0
Contract issuance costs, net (Note 1)	0	20,302	20,302	0
Contract discount, net (Note 1)	0	25,222	25,222	0
Capital assets, net (Note 5)	7,759,419	7,490,759	15,250,178	0
Total noncurrent assets	<u>8,107,663</u>	<u>11,862,723</u>	<u>19,970,386</u>	<u>0</u>
Total Assets	<u>13,889,917</u>	<u>16,829,594</u>	<u>30,719,511</u>	<u>312,278</u>
<u>Liabilities</u>				
Accounts payable	196,894	48,273	245,167	0
Accounts payable - contracts	0	35,149	35,149	0
Deposits payable	2,673	0	2,673	0
Accrued interest	1,934	36,846	38,780	0
Due to local units	4,974	0	4,974	0
Due to state	6,171	17,007	23,178	0
Deferred revenue (Notes 4 and 6)	1,573,673	73,789	1,647,462	0
Long-term liabilities:				
Due within one year (Note 7)	57,968	535,858	593,826	0
Due in more than one year (Note 7)	254,936	4,019,678	4,274,614	0
Total Liabilities	<u>2,099,223</u>	<u>4,766,600</u>	<u>6,865,823</u>	<u>0</u>
<u>Net Assets</u>				
Investment in capital assets, net of related debt	7,555,365	4,900,759	12,456,124	0
Restricted for:				
Cemetery	199,449	0	199,449	0
Base closure future developments	719,766	0	719,766	0
Improvements	0	657,142	657,142	0
Debt service	9,170	519,116	528,286	0
Unrestricted	3,306,944	5,985,977	9,292,921	312,278
Total Net Assets	<u>\$ 11,790,694</u>	<u>\$ 12,062,994</u>	<u>\$ 23,853,688</u>	<u>\$ 312,278</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Unit
					Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<u>Primary Government:</u>								
Governmental activities:								
General government	\$ 976,779	\$ 49,469	\$ 5,314	\$ 0	\$ (921,996)	\$ 0	\$ (921,996)	
Public safety	1,210,431	267,887	116,171	0	(826,373)	0	(826,373)	
Public works	185,995	65,756	0	0	(120,239)	0	(120,239)	
Community and economic development	1,339,733	34,772	284,927	0	(1,020,034)	0	(1,020,034)	
Recreation and cultural	270,674	95,437	2,100	0	(173,137)	0	(173,137)	
Interest on long-term debt	12,383	0	0	0	(12,383)	0	(12,383)	
Total governmental activities	3,995,995	513,321	408,512	0	(3,074,162)	0	(3,074,162)	
Business-type activities:								
Sewage disposal system	771,678	568,502	0	0	0	(203,176)	(203,176)	
Water services	850,515	1,227,664	0	0	0	377,149	377,149	
Housing	2,837	40,070	0	0	0	37,233	37,233	
Old orchard park	611,431	696,453	0	23,543	0	108,565	108,565	
Community center	118,253	43,938	0	0	0	(74,315)	(74,315)	
Total business-type activities	2,354,714	2,576,627	0	23,543	0	245,456	245,456	
Total primary government	\$ 6,350,709	\$ 3,089,948	\$ 408,512	\$ 23,543	(3,074,162)	245,456	(2,828,706)	
<u>Component Unit:</u>								
Downtown development authority	\$ 1,142	\$ 0	\$ 0	\$ 0				\$ (1,142)
<u>General Revenues:</u>								
Property taxes levied for:								
General operating					1,212,010	0	1,212,010	0
TIFA					0	0	0	38,615
Payment in lieu of taxes					14,256	0	14,256	0
State revenue sharing					610,459	0	610,459	0
Rent income					241,632	52,632	294,264	0
Investment earnings					143,588	160,288	303,876	7,584
Sale of capital assets					127,947	0	127,947	0
Other					35,696	420	36,116	0
Transfers					658,329	(658,329)	0	0
Total general revenues and transfers					3,043,917	(444,989)	2,598,928	46,199
Change in net assets					(30,245)	(199,533)	(229,778)	45,057
Net assets - beginning of year					11,820,939	12,262,527	24,083,466	267,221
Net assets - end of year					\$ 11,790,694	\$ 12,062,994	\$ 23,853,688	\$ 312,278

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
December 31, 2005

	<u>General</u>	<u>Police Fund</u>	<u>Property Operation and Maintenance Fund</u>	<u>Office of Economic Adjustment Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and cash equivalents (Note 2)	\$ 588,056	\$ 64,723	\$ 138,998	\$ 23,802	\$ 416,148	\$ 1,231,727
Investments (Note 2)	608,758	260,474	584,136	84,067	255,499	1,792,934
Receivables:						
Taxes (Note 4)	1,336,157	0	0	0	0	1,336,157
Accounts, net	9,109	18	6,821	150	0	16,098
Land contracts	0	0	348,244	0	0	348,244
Special assessments	258,978	0	0	0	23,480	282,458
Due from local units	2,515	8,018	5,762	0	0	16,295
Due from federal	49,590	0	0	0	0	49,590
Due from state	102,190	8,019	0	0	0	110,209
Due from other funds (Note 3)	25,451	0	0	0	4,337	29,788
Restricted assets:						
Cash and cash equivalents (Note 2)	0	0	0	0	165,905	165,905
Investments (Note 2)	0	0	0	0	753,460	753,460
Total Assets	\$ 2,980,804	\$ 341,252	\$ 1,083,961	\$ 108,019	\$ 1,618,829	\$ 6,132,865
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Accounts payable	\$ 88,074	\$ 14,346	\$ 29,932	\$ 5,488	\$ 59,054	\$ 196,894
Deposits payable	2,673	0	0	0	0	2,673
Due to local units	4,974	0	0	0	0	4,974
Due to state	3,971	1,642	296	112	150	6,171
Due to other funds (Note 3)	1,427	0	0	0	940	2,367
Deferred revenue (Notes 4 and 6)	1,547,036	16,164	0	0	56,986	1,620,186
Total liabilities	1,648,155	32,152	30,228	5,600	117,130	1,833,265
<u>Fund Equity</u>						
Fund balances:						
Reserved for:						
Cemetery	0	0	0	0	199,449	199,449
Base closure future developments	0	0	0	0	719,766	719,766
Debt service	0	0	0	0	9,170	9,170
Unreserved, reported in:						
General fund	1,332,649	0	0	0	0	1,332,649
Special revenue funds	0	309,100	1,053,733	102,419	573,314	2,038,566
Total fund equity	1,332,649	309,100	1,053,733	102,419	1,501,699	4,299,600
Total Liabilities and Fund Equity	\$ 2,980,804	\$ 341,252	\$ 1,083,961	\$ 108,019	\$ 1,618,829	\$ 6,132,865

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2005

Total governmental fund balances		\$ 4,299,600
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 10,256,744	
Capital asset accumulated depreciation	<u>(2,497,325)</u>	
		7,759,419
Accrued interest on long-term debt		(1,934)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Land contract payable	(21,864)	
Capital lease payable	(32,190)	
Bonds payable	(150,000)	
Compensated absences	<u>(108,850)</u>	
Total long-term liabilities		(312,904)
Police fund sting revenue will be collected after year-end and will not be available within 60 days of year end to pay for current year's expenditures and therefore is deferred in the governmental fund financial statements.		
		16,037
Special assessment revenue reported as deferred revenue in the governmental fund financial statements is recognized as revenue for governmental activities.		
		<u>30,476</u>
Total net assets - governmental activities		<u>\$ 11,790,694</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

	General	Police Fund	Property Operation and Maintenance Fund	Office of Economic Adjustment Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>						
Taxes	\$ 1,226,266	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,226,266
Special assessments	0	0	0	0	26,631	26,631
Federal grants	72,741	3,813	0	0	291,355	367,909
State grants and revenue	610,459	10,695	0	0	0	621,154
Contributions from local units	0	2,835	0	0	75,570	78,405
Private contributions	10,364	5,000	0	0	2,100	17,464
Charges for services	128,906	194,817	32,849	0	9,450	366,022
Licenses and permits	6,521	0	0	0	0	6,521
Interest and rentals	77,808	6,545	241,698	2,701	56,468	385,220
Fines and forfeits	0	1,673	0	0	0	1,673
Other revenue	31,783	3,530	115	0	268	35,696
Total revenue	<u>2,164,848</u>	<u>228,908</u>	<u>274,662</u>	<u>2,701</u>	<u>461,842</u>	<u>3,132,961</u>
<u>Expenditures</u>						
Current:						
General government	955,142	0	0	0	0	955,142
Public safety	256,278	848,210	0	0	0	1,104,488
Public works	176,411	0	0	0	0	176,411
Community and economic development	74,413	0	230,078	642,528	305,535	1,252,554
Recreation and cultural	160,340	0	0	0	92,686	253,026
Capital outlay	162,303	20,731	76,416	0	18,245	277,695
Debt service:						
Principal	0	0	0	0	56,025	56,025
Interest and fiscal charges	0	0	0	0	14,099	14,099
Total expenditures	<u>1,784,887</u>	<u>868,941</u>	<u>306,494</u>	<u>642,528</u>	<u>486,590</u>	<u>4,089,440</u>
Excess of revenue over (under) expenditures	<u>379,961</u>	<u>(640,033)</u>	<u>(31,832)</u>	<u>(639,827)</u>	<u>(24,748)</u>	<u>(956,479)</u>
Other Financing Sources (Uses):						
Sale of capital assets	8,578	16,879	118,197	0	0	143,654
Operating transfers in	301,500	660,315	14,941	651,700	163,845	1,792,301
Operating transfers out	(688,315)	0	(108,695)	0	(336,962)	(1,133,972)
Total other financing sources (uses)	<u>(378,237)</u>	<u>677,194</u>	<u>24,443</u>	<u>651,700</u>	<u>(173,117)</u>	<u>801,983</u>
Excess of revenue and other sources over (under) expenditures and other uses	1,724	37,161	(7,389)	11,873	(197,865)	(154,496)
Fund balances - beginning of year	<u>1,330,925</u>	<u>271,939</u>	<u>1,061,122</u>	<u>90,546</u>	<u>1,699,564</u>	<u>4,454,096</u>
Fund balances - end of year	<u>\$ 1,332,649</u>	<u>\$ 309,100</u>	<u>\$ 1,053,733</u>	<u>\$ 102,419</u>	<u>\$ 1,501,699</u>	<u>\$ 4,299,600</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Total net change in fund balances - governmental funds	\$	(154,496)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (221,997)	
Capital asset additions reported as capital outlay in the governmental funds	<u>277,695</u>	
Net difference		55,698

In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Cost of the assets sold	(94,443)	
Accumulated depreciation of assets sold	<u>78,735</u>	
Net difference		(15,708)

Principal repayments on land contracts, capital leases and bonds are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Land contract payable	11,284	
Capital lease payable	14,741	
Bonds payable	<u>30,000</u>	
Net difference		56,025

Net change in accrued interest on long-term liabilities:

Accrued interest on long-term liabilities December 31, 2004	3,650	
Accrued interest on long-term liabilities December 31, 2005	<u>(1,934)</u>	
Net change		1,716

Net change in accrued compensated absences:

Accrued compensated absences December 31, 2004	88,857	
Accrued compensated absences December 31, 2005	<u>(108,850)</u>	
Net change		(19,993)

Police fund sting revenue collected after 60 days of year end and reported as deferred revenue in the governmental fund financial statements is recognized as revenue for governmental activities.

16,037

Special assessment revenue reported as deferred revenue in the governmental fund financial statements is recognized as revenue for governmental activities

30,476

Change in net assets of governmental activities	\$	<u>(30,245)</u>
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The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
December 31, 2005

	Enterprise Funds				
	Major Funds			Nonmajor Funds	Total
	Sewage Disposal System Fund	Water Fund	Old Orchard Park Fund		
<u>Assets</u>					
Current assets:					
Cash and cash equivalents (Note 2)	\$ 28,897	\$ 568,829	\$ 179,097	\$ 137,531	\$ 914,354
Investments (Note 2)	413,308	673,136	350,922	1,248,910	2,686,276
Receivables:					
Accounts, net	72,819	112,337	50	40	185,246
Due from other funds (Note 3)	0	453	940	1,427	2,820
Inventory	0	0	2,370	0	2,370
Total current assets	515,024	1,354,755	533,379	1,387,908	3,791,066
Restricted assets:					
Cash and cash equivalents (Note 2)	7,514	1,270	0	0	8,784
Cash held in escrow (Note 2)	515,389	0	0	0	515,389
Investments (Note 2)	69,376	582,709	0	0	652,085
Total restricted assets	592,279	583,979	0	0	1,176,258
Noncurrent assets:					
Investment in Huron Shore Regional Utility Authority (Note 1)	0	4,326,440	0	0	4,326,440
Contract issuance costs, net (Note 1)	20,302	0	0	0	20,302
Contract discount, net (Note 1)	25,222	0	0	0	25,222
Capital assets, net (Note 5)	3,711,554	3,352,791	343,444	82,970	7,490,759
Total noncurrent assets	3,757,078	7,679,231	343,444	82,970	11,862,723
Total Assets	4,864,381	9,617,965	876,823	1,470,878	16,830,047
<u>Liabilities</u>					
Current liabilities:					
Accounts payable	11,950	17,455	10,300	8,568	48,273
Accounts payable - contracts	21,089	14,060	0	0	35,149
Accrued interest	16,703	20,143	0	0	36,846
Due to state	23	46	16,759	179	17,007
Due to other funds (Note 3)	453	0	0	0	453
Deferred revenue (Note 6)	0	0	73,784	5	73,789
Bonds payable, current (Note 7)	0	150,000	0	0	150,000
Contracts payable, current (Note 7)	55,000	330,858	0	0	385,858
Total current liabilities	105,218	532,562	100,843	8,752	747,375
Noncurrent liabilities:					
Accrued compensated absences payable (Note 7)	544	1,087	7,158	439	9,228
Bonds payable (Note 7)	0	170,000	0	0	170,000
Contracts payable (Note 7)	2,215,000	1,625,450	0	0	3,840,450
Total noncurrent liabilities	2,215,544	1,796,537	7,158	439	4,019,678
Total Liabilities	2,320,762	2,329,099	108,001	9,191	4,767,053
<u>Net Assets</u>					
Investment in capital assets, net of related debt	1,441,554	3,032,791	343,444	82,970	4,900,759
Restricted for:					
Improvements	586,956	70,186	0	0	657,142
Debt service	5,323	513,793	0	0	519,116
Unrestricted	509,786	3,672,096	425,378	1,378,717	5,985,977
Total Net Assets	\$ 2,543,619	\$ 7,288,866	\$ 768,822	\$ 1,461,687	\$ 12,062,994

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS

For the Year Ended December 31, 2005

	Enterprise Funds				
	Major Funds			Nonmajor	Total
	Sewage Disposal System Fund	Water Fund	Old Orchard Park Fund	Funds	
Operating Revenue:					
Charges for services	\$ 541,866	\$ 1,160,671	\$ 0	\$ 41,071	\$ 1,743,608
Penalties	8,136	21,196	0	0	29,332
User fees	0	0	586,006	2,867	588,873
Housing sales	0	0	0	40,070	40,070
Tap fees	18,500	43,000	0	0	61,500
Store sales	0	0	110,447	0	110,447
Rents	0	38,900	5,214	8,518	52,632
Other	0	2,797	264	156	3,217
Total operating revenue	<u>568,502</u>	<u>1,266,564</u>	<u>701,931</u>	<u>92,682</u>	<u>2,629,679</u>
Operating Expenses:					
Salaries and wages	9,568	19,390	222,250	37,473	288,681
Payroll taxes and fringe benefits	734	1,488	75,416	3,724	81,362
Office and operating supplies	18,043	5,710	102,506	12,974	139,233
Communications	349	660	1,932	1,438	4,379
Professional fees and services	289,435	544,822	13,123	8,282	855,662
Gasoline and oil	0	0	14,045	0	14,045
Licenses and permits	0	0	2,889	0	2,889
Travel and training	0	0	863	0	863
Insurance and bonds	7,587	7,305	7,165	4,590	26,647
Repair and maintenance	4,667	2,162	72,736	6,318	85,883
Rent	0	0	3,119	0	3,119
Utilities	87,553	1,864	53,700	41,820	184,937
Equipment	0	0	13,423	0	13,423
Depreciation and amortization	186,182	140,838	27,985	4,464	359,469
Other	5,739	2,386	279	7	8,411
Total operating expenses	<u>609,857</u>	<u>726,625</u>	<u>611,431</u>	<u>121,090</u>	<u>2,069,003</u>
Operating income (loss)	<u>(41,355)</u>	<u>539,939</u>	<u>90,500</u>	<u>(28,408)</u>	<u>560,676</u>
Non-operating Revenue (Expenses):					
State grants	0	0	23,543	0	23,543
Interest earned on investments	54,806	44,885	12,588	48,009	160,288
Interest expense and paying agent fees	(158,475)	(123,890)	0	0	(282,365)
Loss on sale of capital asset	(3,346)	0	0	0	(3,346)
Total non-operating revenue (expenses)	<u>(107,015)</u>	<u>(79,005)</u>	<u>36,131</u>	<u>48,009</u>	<u>(101,880)</u>
Income (loss) before operating transfers	<u>(148,370)</u>	<u>460,934</u>	<u>126,631</u>	<u>19,601</u>	<u>458,796</u>
Other Financing Sources (Uses):					
Operating transfers in	0	0	15,112	60,000	75,112
Operating transfers out	0	0	(206,500)	(526,941)	(733,441)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>(191,388)</u>	<u>(466,941)</u>	<u>(658,329)</u>
Change in net assets	(148,370)	460,934	(64,757)	(447,340)	(199,533)
Net assets - beginning of year	<u>2,691,989</u>	<u>6,827,932</u>	<u>833,579</u>	<u>1,909,027</u>	<u>12,262,527</u>
Net assets - end of year	<u>\$ 2,543,619</u>	<u>\$ 7,288,866</u>	<u>\$ 768,822</u>	<u>\$ 1,461,687</u>	<u>\$ 12,062,994</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Enterprise Funds				
	Major Funds				
	Sewage Disposal System Fund	Water Fund	Old Orchard Park Fund	Nonmajor Funds	Total
<u>Cash Flows From Operating Activities</u>					
Cash received from customers	\$ 563,201	\$ 1,279,933	\$ 704,381	\$ 92,687	\$ 2,640,202
Cash payments to suppliers and employees	(421,230)	(567,637)	(576,163)	(122,007)	(1,687,037)
Net cash provided (used) by operating activities	141,971	712,296	128,218	(29,320)	953,165
<u>Cash Flows From Non-Capital Financing Activities</u>					
State grants received	0	0	9,200	0	9,200
Cash received from (paid to) other funds	25,964	(25,964)	(236,824)	(468,468)	(705,292)
Net cash provided (used) by non-capital financing activities	25,964	(25,964)	(227,624)	(468,468)	(696,092)
<u>Cash Flows From Capital and Related Financing Activities</u>					
Federal grants received	296,025	0	0	0	296,025
Acquisition and construction of capital assets	(7,720)	(86,169)	(9,229)	0	(103,118)
Proceeds from the sale of capital assets	4,000	0	0	0	4,000
Principal paid on long-term debt	(1,160,000)	(443,092)	0	0	(1,603,092)
Interest paid on long-term debt	(158,475)	(127,829)	0	0	(286,304)
Net cash used by capital and related financing activities	(1,026,170)	(657,090)	(9,229)	0	(1,692,489)
<u>Cash Flows From Investing Activities</u>					
Interest on investments	54,806	14,184	12,588	48,009	129,587
Redemption (purchase) of investment securities	365,256	0	(192,562)	166,918	339,612
Net cash provided (used) by investing activities	420,062	14,184	(179,974)	214,927	469,199
Net increase (decrease) in cash and cash equivalents	(438,173)	43,426	(288,609)	(282,861)	(966,217)
Cash and cash equivalents at beginning of year (Note 2)	989,973	526,673	467,706	420,392	2,404,744
Cash and cash equivalents at end of year (Note 2)	\$ 551,800	\$ 570,099	\$ 179,097	\$ 137,531	\$ 1,438,527
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>					
Operating income (loss)	\$ (41,355)	\$ 539,939	\$ 90,500	\$ (28,408)	\$ 560,676
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization expense	186,182	140,838	27,985	4,464	359,469
Change in assets and liabilities:					
Accounts receivable, net	(5,301)	11,190	(50)	0	5,839
Due from local units	0	2,179	0	0	2,179
Inventory	0	0	1	0	1
Accounts and other payables	1,900	17,061	3,769	(3,452)	19,278
Due to state	1	2	3,171	(2,018)	1,156
Deferred revenue	0	0	2,500	5	2,505
Accrued compensated absences	544	1,087	342	89	2,062
Net cash provided (used) by operating activities	\$ 141,971	\$ 712,296	\$ 128,218	\$ (29,320)	\$ 953,165

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
December 31, 2005

	<u>Trust and Agency</u>	<u>Tax Account</u>	<u>Cedar Lake Improvement Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 9,162	\$ 735,673	\$ 32,032	\$ 776,867
Special assessments receivable	0	0	23,210	23,210
Due from local units	0	0	0	
Due from other funds (Note 3)	<u>0</u>	<u>0</u>	<u>14,710</u>	<u>14,710</u>
Total Assets	<u>\$ 9,162</u>	<u>\$ 735,673</u>	<u>\$ 69,952</u>	<u>\$ 814,787</u>
<u>LIABILITIES</u>				
Due to other agencies and individuals	\$ 9,087	\$ 0	\$ 32,032	\$ 41,119
Due to other funds (Note 3)	75	44,423	0	44,498
Deferred revenue (Note 4)	<u>0</u>	<u>691,250</u>	<u>37,920</u>	<u>729,170</u>
Total Liabilities	<u>\$ 9,162</u>	<u>\$ 735,673</u>	<u>\$ 69,952</u>	<u>\$ 814,787</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Oscoda conform in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of Township Operations

The Charter Township of Oscoda was organized in 1970 under the Charter Township Act of 1947 and covers an area of approximately 120 square miles. The Charter Township operates under an elected Board (seven members) and provides services to its residents in many areas including law enforcement, fire protection, library, and water and sewer services.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Township are not misleading. The primary government of the Township consists of all funds, departments, board, and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs of services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Township is obligated for the debt of the organization. Component units may also include organizations for which the Township approves the budget, the issuance of debt, or the levying of taxes.

Discretely Presented Component Unit

The component unit column in the Statement of Net Assets and the Statement of Activities represents the financial data of the Charter Township of Oscoda Downtown Development Authority. The Downtown Development Authority is reported in a separate column to emphasize that it is legally separate from the Township. The governing body of this component unit is appointed by the Township Board. The Authority was established to halt property value deterioration and to increase property tax valuation where possible in the business district of the Township, to eliminate the causes of that deterioration and to promote economic growth. Complete financial statements can be obtained from the Charter Township of Oscoda Treasurer's office.

C. Joint Ventures

The Township has entered into several joint ventures with various municipalities described as follows:

1. AuSable Township Building Authority:

The Building Authority was established to provide for the acquisition and construction of certain public buildings, parking lots or structures, recreational facilities and the necessary sites therefore. Complete financial statements can be obtained from the AuSable Township Clerk's office, located at 311 Fifth Street, Oscoda, Michigan 48750.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

2. AuSable-Oscoda Joint Industrial Park Fund:

The purpose of the Joint Industrial Park Fund is to promote, purchase and sell certain industrial properties known as the AuSable-Oscoda Industrial Park. All costs and expenses net of funds received from County, State and Federal Governments are to be shared on an equal basis. The Township did not remit any funds to the Industrial Park for the year ended December 31, 2005. On dissolution of the Industrial Park, the net assets will be shared equally by the two Townships. Complete financial statements can be obtained from the AuSable Township Clerk's office, located at 311 Fifth Street, Oscoda, Michigan 48750.

3. Huron Shore Regional Utility Authority:

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the Charter Township of Oscoda's share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the Township because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 48.8% of the total bond issue of \$7,930,000 or \$3,869,840. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of Oscoda is making payments through charges for services.

In 1995, the Township entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the Charter Township of AuSable, City of Tawas City and the Township of Baldwin. The most current estimate of the Township's share is 57.25% of the total bond issue of \$1,300,000 or \$744,250. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of Oscoda is making payments through charges for services. Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The Charter Township of Oscoda's contribution for the year ended December 31, 2005 was \$336,609. The current value of the Charter Township of Oscoda's investment in the Huron Shore Regional Utility Authority is \$4,326,440. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

Jointly Governed Organizations

Oscoda-Wurtsmith Airport Authority:

The Oscoda-Wurtsmith Airport Authority functions as a jointly governed organization between the County of Iosco, County of Alcona, Charter Township of Oscoda, Charter Township of AuSable and the Township of Greenbush. The Airport Authority was established to provide for planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities necessary thereto, at the former Wurtsmith Air Force Base, for the purpose of providing a Community Airport. The Charter Township of Oscoda has no financial obligation to the Airport Authority. Complete financial statements can be obtained from the Airport Authority Manager's office at 3961 East Airport Drive, Oscoda, Michigan 48750.

D. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government and its component unit except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund - This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.

Police Fund – This fund accounts for the revenues and expenses required to operate the Township Police Department. The primary sources of revenue are contributions from the General Fund in the case of Oscoda Township and monthly payments from AuSable Township.

Property Operation and Maintenance Fund – This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts for base property as well as other miscellaneous income including grants as they might become available.

Office of Economic Adjustment Fund – This fund accounts for revenues and expenses related to community and economic development activities on the former Wurtsmith Air Force Base.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Township's major enterprise funds:

Sewage Disposal System Fund - This fund accounts for the revenues and expenditures required to operate the Township's sanitary sewer system including the new lagoon facility at the former Wurtsmith Air Force Base and all related appurtenances such as mains and pump stations. Revenues required to operate the system are derived primarily from user fees.

Water Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Oscoda as well as the Township's financial participation in the Huron Shore Regional Utility Authority. Like the Sewer Fund, revenues are derived primarily from user fees.

Old Orchard Park Fund - This fund was created when the Township acquired leasehold interest in the Old Orchard Park property from Consumers Energy and began operating the campground. The fund normally generates a net positive cash flow which is available to support governmental functions through inter budgetary transfers.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The Charter Township of Oscoda uses these funds to account for payroll tax withholdings and the eventual payment of the liability, as well as property tax collections.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the flow of economic resources measurement focus.

All assets and liabilities associated with the operation of the Township are included on the statement of net assets.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available, means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Township, available means expected to be received within 60 days after year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax) grants, interest, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2005, but were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board.

The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

The legal level of control is at the activity level for the General Fund and the Special Revenue Funds.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Enterprise Fund Restricted Assets

Restricted assets are those assets required to meet the covenants and conditions of bond indentures and other contract agreements.

J. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

K. Receivables

Receivables at December 31, 2005, consist of accounts (fees), taxes, special assessments and charges for sewer and water services due from various customers. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

No allowance for doubtful accounts was deemed necessary at December 31, 2005.

L. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Similar activities in which a component unit is a party are captioned as "receivables" or "payables" for both the current and non-current portions between a component unit and the primary government. Balances to which a fiduciary fund is a party are treated as external receivables and payables.

M. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government wide and fund financial statements.

N. Inventory

Inventory is recorded in the Old Orchard Park Fund at the lower of cost or market, with cost determined on a first-in, first-out basis. All purchases for materials are reflected in expenses when paid in the other funds.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE D)

O. Deferred Charges

Contract issuance costs and contract discounts are deferred and amortized over the term of the contract using the straight-line method since the results are not significantly different from the effective interest method.

P. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$7,500, or \$5,000 if purchased with federal funds, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	40 years
Land Improvements	20 - 30 years
Machinery and Equipment	5 - 10 years
Vehicles	5 - 15 years
Infrastructure	5 - 50 years

Q. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the Township will compensate the employees for the benefits through paid time off or some other means. The Township records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Township has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration limits specified in the Township's termination policy. The Township records a liability for sick leave earned at varying rates depending on the Township's policy.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Compensated Absences (Continued)

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave is paid. The noncurrent portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

R. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

S. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

T. Governmental Fund Balance Reserves

The Township reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure.

Fund balance reserves represent the assets in the Public Improvement Fund to be used for future cemetery expansion, the Base Closure Fund for future developments, and the Streetscape Debt Service Fund for future debt service.

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)U. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Township, these revenues are housing sales and charges for services for water, sewer, community center, exposition center and park usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

W. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
<u>Current Assets</u>					
Cash and Cash Equivalents	\$ 1,231,727	\$ 914,354	\$ 776,867	\$ 2,922,948	\$ 312,278
Investments	<u>1,792,934</u>	<u>2,686,276</u>	<u>0</u>	<u>4,479,210</u>	<u>0</u>
Total Current Assets	<u>3,024,661</u>	<u>3,600,630</u>	<u>776,867</u>	<u>7,402,158</u>	<u>312,278</u>
<u>Restricted Assets</u>					
Cash and Cash Equivalents	165,905	8,784	0	174,689	0
Cash held in Escrow	0	515,389	0	515,389	0
Investments	<u>753,460</u>	<u>652,085</u>	<u>0</u>	<u>1,405,545</u>	<u>0</u>
Total Restricted Assets	<u>919,365</u>	<u>1,176,258</u>	<u>0</u>	<u>2,095,623</u>	<u>0</u>
	<u>\$ 3,944,026</u>	<u>\$ 4,776,888</u>	<u>\$ 776,867</u>	<u>\$ 9,497,781</u>	<u>\$ 312,278</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 6,511,311	\$ 457
Cash held in Escrow	<u>515,389</u>	<u>0</u>
Total Deposits	7,026,700	457
Investments in Municipal Investment Account		
Pooled Funds and Similar Vehicles	2,469,631	311,821
Petty Cash and Cash on Hand	<u>1,450</u>	<u>0</u>
Total	<u>\$ 9,497,781</u>	<u>\$ 312,278</u>

As of December 31, 2005, the Township had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 2,469,631</u>	Daily

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local governmental unit in Michigan. The Township's investment pools are unrated.

Custodial Credit Risk – Deposits – Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2005, \$6,298,454 of the Township's bank balance of \$7,051,916 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Deposits – Component Unit

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2005, \$0 of the Downtown Development Authority's bank balance of \$457 was exposed to custodial credit risk.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities approved in the Township's investment policy which is in accordance with State law.

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The Township's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

NOTE 3 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of December 31, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 25,451	\$ 1,427
Non-major Governmental Funds	4,337	940
Major Enterprise Funds:		
Sewage Disposal System Fund	0	453
Water Fund	453	0
Old Orchard Park Fund	940	0
Total Major Enterprise Funds	1,393	453
Non-major Enterprise Funds	1,427	0
Fiduciary Funds	14,710	44,498
	<u>\$ 47,318</u>	<u>\$ 47,318</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 3 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY (CONTINUED)

The amounts of interfund receivables and payables as of December 31, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
<u>Primary Government</u>		<u>Primary Government</u>	
General Fund	\$ 75	Trust and Agency Fund	\$ 75
General Fund	25,376	Tax Account Fund	25,376
Debt Service Fund	4,337	Tax Account Fund	4,337
Water Fund	453	Sewage Disposal System Fund	453
Old Orchard Park Fund	940	Old Orchard Park Improvement Fund	940
Health and Community Center Fund	1,427	General Fund	1,427
Cedar Lake Improvement Fund	<u>14,710</u>	Tax Account Fund	<u>14,710</u>
Total primary government	<u>\$ 47,318</u>	Total primary government	<u>\$ 47,318</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 4 - PROPERTY TAXES

Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 28. Township taxes levied December 1 are considered revenue for the subsequent year; therefore, taxes receivable in the governmental funds have been offset by deferred revenue. Real and personal property for the December 1, 2005 levy had a taxable value of \$262,383,110 and equalized at \$325,252,700, representing 50% of estimated current market value. The 2005 operating tax rates are currently 4.7211 mills for operating.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,349,257	\$ 0	\$ 0	\$ 4,349,257
Capital Assets Being Depreciated:				
Buildings and Improvements	3,347,166	229,274	0	3,576,440
Land Improvements	730,472	0	0	730,472
Machinery and Equipment	330,210	9,445	0	339,655
Vehicles	<u>1,316,387</u>	<u>38,976</u>	<u>94,443</u>	<u>1,260,920</u>
Subtotal	<u>5,724,235</u>	<u>277,695</u>	<u>94,443</u>	<u>5,907,487</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 5 - CAPITAL ASSETS (CONTINUED)

<u>Governmental Activities (Continued)</u>	<u>Beginning Balance</u>	<u>Increase s</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 825,560	\$ 84,628	\$ 0	\$ 910,188
Land Improvement s	363,419	31,318	0	394,737
Machinery and Equipment	115,311	34,363	0	149,674
Vehicles	<u>1,049,773</u>	<u>71,688</u>	<u>78,735</u>	<u>1,042,726</u>
Subtotal	<u>2,354,063</u>	<u>221,997</u>	<u>78,735</u>	<u>2,497,325</u>
Net Capital Assets Being Depreciated	<u>3,370,172</u>	<u>55,698</u>	<u>15,708</u>	<u>3,410,162</u>
Governmental Activities Total Capital Assets - Net of Depreciation	<u>\$ 7,719,429</u>	<u>\$ 55,698</u>	<u>\$ 15,708</u>	<u>\$ 7,759,419</u>
<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase s</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 22,885	\$ 0	\$ 0	\$ 22,885
Construction in Progress	<u>128,733</u>	<u>0</u>	<u>128,733</u>	<u>0</u>
Subtotal	<u>151,618</u>	<u>0</u>	<u>128,733</u>	<u>22,885</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	329,266	0	0	329,266
Land Improvement	87,508	44,015	0	131,523
Vehicles	24,461	0	0	24,461
Infrastructure	13,350,061	174,914	0	13,524,975
Machinery and Equipment	<u>349,593</u>	<u>12,922</u>	<u>9,766</u>	<u>352,749</u>
Subtotal	<u>14,140,889</u>	<u>231,851</u>	<u>9,766</u>	<u>14,362,974</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	47,726	16,463	0	64,189
Land Improvement	2,666	4,926	0	7,592
Vehicles	12,308	4,892	0	17,200
Infrastructure	6,184,848	317,684	0	6,502,532
Machinery and Equipment	<u>292,943</u>	<u>13,065</u>	<u>2,421</u>	<u>303,587</u>
Subtotal	<u>6,540,491</u>	<u>357,030</u>	<u>2,421</u>	<u>6,895,100</u>
Net Capital Assets Being Depreciated	<u>7,600,398</u>	<u>(125,179)</u>	<u>7,345</u>	<u>7,467,874</u>
Business-Type Activities Total Capital Assets - Net of Depreciation	<u>\$ 7,752,016</u>	<u>\$ (125,179)</u>	<u>\$ 136,078</u>	<u>\$ 7,490,759</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities :	
General government	\$ 16,470
Public safety	86,539
Public works	13,921
Community and economic development	84,298
Recreation and cultural	<u>20,769</u>
Total Governmental Activities	<u>\$ 221,997</u>
Business-Type Activities :	
Sewer	\$ 183,743
Water	140,838
Old Orchard Park	27,985
Community Center	<u>4,464</u>
Total Business-Type Activities	<u>\$ 357,030</u>

NOTE 6 - DEFERRED REVENUE - SPECIAL ASSESSMENTS

Various special assessment districts have been established which are to be levied over 1-20 year periods with interest at 6-7%. Revenue is recognized each year by each specific district over the number of years of the levy. These assessments are to be used to finance additions to the system, maintenance of infrastructure, street improvements, weed control, and to meet contractual obligations referred to in the subsequent notes.

NOTE 7 - LONG-TERM DEBT

At December 31, 2005, long-term debt consists of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u>		
A. Contracts Payable		
\$2,270,000 Iosco County, Oscoda Township sewage disposal system contract, dated September 1, 2003 for the purpose of acquiring sewage disposal system facilities and providing sewer service to Oscoda Township. The Township's obligation for the bond through Iosco County bears interest from 4.10% to 4.90% and is due in annual installments beginning 2006 through 2024.	\$ 0	\$ 2,270,000

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u> (Continued)		
A. Contracts Payable (Continued)		
Joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water Sewer System No. 1, with the Township of AuSable, the Township of Baldwin, and the City of Tawas City bonds dated November 1, 1995 due in annual installments through May 1, 2015 and bearing interest at 4.4% to 5.625%. The most current estimate of the Township's share is 57.25% of the total bond issue of \$1,300,000 or \$744,250.	\$ 0	\$ 558,188
Joint water supply system agreement with the Cities of East Tawas and Tawas City, the Township of AuSable, and the Township of Baldwin through the Huron Shore Regional Utility Authority to finance the cost of constructing a new water supply system to serve both cities and the three Townships. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991 due in annual installments through November 1, 2010, bearing interest rates at 4% to 5.65%. The most current estimate of the Township's share is 48.8% of the total bond issue of \$7,930,000 or \$3,869,840.	<u>0</u>	<u>1,398,120</u>
	<u>0</u>	<u>4,226,308</u>
B. General Obligation Bonds Payable:		
\$1,275,000 Limited Tax General Obligation Water Refunding Bonds dated September 10, 1998. Issued in order to provide funds for the purpose of advance refunding the County's Iosco County Water Supply System Limited Tax General Obligation Bonds, dated September 1, 1990. These bonds bear interest from 4.3% to 4.35% and are due in annual installments through 2007.	<u>0</u>	<u>320,000</u>
C. Special Assessment Bonds Payable:		
<u>Special Assessment Bond</u>		
\$285,000 Lakefront District Improvement Bond series 2000-A dated July 1, 2000. The bonds were issued to provide funds for the acquisition and construction of sidewalk and street light improvements in the Phase I and II improvements Special Assessment District. The bonds bear interest of 6.75% and are due in annual installments through 2010.	<u>150,000</u>	<u>0</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u> (Continued)		
D. <u>Land Contract Payable</u>		
On May 31, 1995 land was purchased for \$132,500; \$30,000 cash and the remainder in the form of a land contract payable in monthly installments of \$1,151 including interest of 9.0% on the unpaid balance to Kenneth and Linda Tapner through 2007.	\$ 21,864	\$ 0
E. <u>Capital Lease Payable</u>		
Lease purchase agreement with Bank One Lease Corporation for the purchase of a 1997 Pierce Saber Fire Truck on June 23, 1997. The Township paid \$226,066 for the equipment; \$96,842 cash and \$129,224 in the form of a lease purchase agreement. The lease is payable in annual installments of \$17,557 including interest at 6.00% through 2007. The lease is secured by the equipment.	32,190	0
Total Primary Government	<u>\$ 204,054</u>	<u>\$ 4,546,308</u>

F. Compensated Absences

The Charter Township of Oscoda has a sick pay policy in accordance with various contracts that allow employees to accumulate sick days at the rate of 1 day per month up to a maximum of 90 days for general Township employees and 120 for Police Union employees. Accumulated sick pay is paid only upon separation of employment for retirement, disability or death, at the rate of one-half the accumulated sick leave. The amount of accumulated sick pay liability at December 31, 2005 was \$99,666. The Township also has a vacation pay policy that allows employees to accumulate unused vacation days which are payable upon separation of employment. The amount of accumulated vacation pay liability at December 31, 2005 was \$18,412. These compensated absences are recorded using the vesting method in accordance with Governmental Standards Board Statement 16.

G. Changes in Long Term Liabilities

	<u>Balance</u> <u>January 1, 2005</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>December 31, 2005</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Land contract payable	\$ 33,148	\$ 0	\$ 11,284	\$ 21,864	\$ 12,342
Special assessment bonds payable	180,000	0	30,000	150,000	30,000
Capital lease payable	46,931	0	14,741	32,190	15,626
Accrued employee benefits payable	<u>88,857</u>	<u>19,993*</u>	<u>0</u>	<u>108,850</u>	<u>0</u>
Total primary government	<u>\$ 348,936</u>	<u>\$ 19,993</u>	<u>\$ 56,025</u>	<u>\$ 312,904</u>	<u>\$ 57,968</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

G. Changes in Long Term Liabilities (Continued)

	<u>Balance</u> <u>January 1, 2005</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>December 31, 2005</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	\$ 4,316,627	\$ 0	\$ 90,319	\$ 4,226,308	\$ 385,858
General obligation bonds payable	1,635,000	0	1,315,000	320,000	150,000
Accrued employee benefits payable	<u>7,166</u>	<u>2,062*</u>	<u>0</u>	<u>9,228</u>	<u>0</u>
Total primary government	<u>\$ 5,958,793</u>	<u>\$ 2,062</u>	<u>\$ 1,405,319</u>	<u>\$ 4,555,536</u>	<u>\$ 535,858</u>

*Represents net of additions and retirements for the year.

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of December 31, 2005 are as follows:

Primary Government

Contracts Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 385,858	\$ 206,090	\$ 591,948
2007	385,977	186,579	572,556
2008	386,097	166,657	552,754
2009	388,658	146,481	535,139
2010	405,530	126,670	532,200
2011 – 2015	819,188	445,644	1,264,832
2016 – 2020	700,000	277,800	977,800
2021 – 2024	<u>755,000</u>	<u>93,825</u>	<u>848,825</u>
	<u>\$ 4,226,308</u>	<u>\$ 1,649,746</u>	<u>\$ 5,876,054</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

General Obligation Bonds

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 150,000	\$ 10,619	\$ 160,619
2007	<u>170,000</u>	<u>3,697</u>	<u>173,697</u>
	<u>\$ 320,000</u>	<u>\$ 14,316</u>	<u>\$ 334,316</u>

Special Assessment Bond Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 30,000	\$ 6,990	\$ 36,990
2007	30,000	5,475	35,475
2008	30,000	3,938	33,938
2009	30,000	2,378	32,378
2010	<u>30,000</u>	<u>795</u>	<u>30,795</u>
	<u>\$ 150,000</u>	<u>\$ 19,576</u>	<u>\$ 169,576</u>

Land Contract Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 12,342	\$ 1,467	\$ 13,809
2007	<u>9,522</u>	<u>348</u>	<u>9,870</u>
	<u>\$ 21,864</u>	<u>\$ 1,815</u>	<u>\$ 23,679</u>

Capital Lease Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 15,626	\$ 1,931	\$ 17,557
2007	<u>16,564</u>	<u>993</u>	<u>17,557</u>
	<u>\$ 32,190</u>	<u>\$ 2,924</u>	<u>\$ 35,114</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 8 - OPERATING TRANSFERS

During 2005, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 301,500	\$ 688,315
Police Fund	660,315	0
Property Operation and Maintenance Fund	14,941	108,695
Office of Economic Adjustment Fund	651,700	0
Major Business-Type Activity Funds:		
Old Orchard Park Fund	<u>15,112</u>	<u>206,500</u>
Total Major Funds	<u>1,131,568</u>	<u>1,003,510</u>
Non-major Governmental Funds	163,845	336,962
Non-major Business-Type Activity Funds	<u>60,000</u>	<u>526,941</u>
Total Non-major Funds	<u>735,845</u>	<u>863,903</u>
	<u>\$ 1,867,413</u>	<u>\$ 1,867,413</u>

During 2005, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
General Fund	\$ 40,000	Property Operation and Maintenance Fund	\$ 40,000
General Fund	100,000	Stabilization Fund	100,000
General Fund	161,500	Old Orchard Park Fund	161,500
Police Fund	660,315	General Fund	660,315
Property Operation and Maintenance Fund	14,941	Exposition Center Fund	14,941
Office of Economic Adjustment Fund	139,700	Base Closure Fund	139,700
Office of Economic Adjustment Fund	512,000	Housing Fund	512,000
Public Improvement Fund	28,000	General Fund	28,000
Base Closure Fund	68,695	Property Operation and Maintenance Fund	68,695
Old Orchard Park Improvement Fund	45,000	Old Orchard Park Fund	45,000
Library Fund	22,150	Base Closure Fund	22,150
Old Orchard Park Fund	15,112	Old Orchard Park Improvement Fund	15,112
Health and Community Center Fund	<u>60,000</u>	Base Closure Fund	<u>60,000</u>
Total	<u>\$ 1,867,413</u>	Total	<u>\$ 1,867,413</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 8 - OPERATING TRANSFERS (CONTINUED)

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - SEGMENT INFORMATION OF ENTERPRISE FUNDS

The Township maintains three major and three non-major Enterprise Funds. Segment information for the year ended December 31, 2005 is as follows:

	Sewage Disposal System Fund	Water Fund	Old Orchard Park Fund	Non-major Funds	Total Enterprise Funds
Operating revenue	\$ 568,502	\$ 1,266,564	\$ 701,931	\$ 92,682	\$ 2,629,679
Operating expenses	\$ 609,857	\$ 726,625	\$ 611,431	\$ 121,090	\$ 2,069,003
Depreciation and amortization	\$ 186,182	\$ 140,838	\$ 27,985	\$ 4,464	\$ 359,469
Operating income (loss)	\$ (41,355)	\$ 539,939	\$ 90,500	\$ (28,408)	\$ 560,676
Non-operating revenue (expenses)	\$ (107,015)	\$ (79,005)	\$ 36,131	\$ 48,009	\$ (101,880)
Operating transfers in (out)	\$ 0	\$ 0	\$ (191,388)	\$ (466,941)	\$ (658,329)
Change in net assets	\$ (148,370)	\$ 460,934	\$ (64,757)	\$ (447,340)	\$ (199,533)
Beginning net assets	\$ 2,691,989	\$ 6,827,932	\$ 833,579	\$ 1,909,027	\$ 12,262,527
Ending net assets	\$ 2,543,619	\$ 7,288,866	\$ 768,822	\$ 1,461,687	\$ 12,062,994
Property, plant and equipment:					
Additions	\$ 7,720	\$ 86,169	\$ 9,229	\$ 0	\$ 103,118
Net working capital	\$ 409,806	\$ 822,193	\$ 432,536	\$ 1,379,156	\$ 3,043,691
Current assets	\$ 515,024	\$ 1,354,755	\$ 533,379	\$ 1,387,908	\$ 3,791,066
Restricted assets	\$ 592,279	\$ 583,979	\$ 0	\$ 0	\$ 1,176,258
Capital assets, net	\$ 3,711,554	\$ 3,352,791	\$ 343,444	\$ 82,970	\$ 7,490,759
Other noncurrent assets	\$ 45,524	\$ 4,326,440	\$ 0	\$ 0	\$ 4,371,964
Total assets	\$ 4,864,381	\$ 9,617,965	\$ 876,823	\$ 1,470,878	\$ 16,830,047
Current liabilities	\$ 105,218	\$ 532,562	\$ 100,843	\$ 8,752	\$ 747,375
Noncurrent liabilities	\$ 2,215,544	\$ 1,796,537	\$ 7,158	\$ 439	\$ 4,019,678
Total liabilities	\$ 2,320,762	\$ 2,329,099	\$ 108,001	\$ 9,191	\$ 4,767,053
Contracts payable	\$ 2,270,000	\$ 1,956,308	\$ 0	\$ 0	\$ 4,226,308
Bonds payable	\$ 0	\$ 320,000	\$ 0	\$ 0	\$ 320,000
Net assets:					
Investment in capital assets, net of related debt	\$ 1,441,554	\$ 3,032,791	\$ 343,444	\$ 82,970	\$ 4,900,759
Restricted	\$ 592,279	\$ 583,979	\$ 0	\$ 0	\$ 1,176,258
Unrestricted	\$ 509,786	\$ 3,672,096	\$ 425,378	\$ 1,378,717	\$ 5,985,977
Total Net Assets	\$ 2,543,619	\$ 7,288,866	\$ 768,822	\$ 1,461,687	\$ 12,062,994

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 9 - SEGMENT INFORMATION OF ENTERPRISE FUNDS (CONTINUED)

	<u>Sewage Disposal System Fund</u>	<u>Water Fund</u>	<u>Old Orchard Park Fund</u>	<u>Non-major Funds</u>	<u>Total Enterprise Fund</u>
Net cash provided (used) by:					
Operating activities	\$ 141,971	\$ 712,296	\$ 128,218	\$ (29,320)	\$ 953,165
Non-capital financing activities	\$ 25,964	\$ (25,964)	\$ (227,624)	\$ (468,468)	\$ (696,092)
Capital and related financing activities	\$ (1,026,170)	\$ (657,090)	\$ (9,229)	\$ 0	\$ (1,692,489)
Investing activities	\$ 420,062	\$ 14,184	\$ (179,974)	\$ 214,927	\$ 469,199
Beginning cash and cash equivalents	\$ 989,973	\$ 526,673	\$ 467,706	\$ 420,392	\$ 2,404,744
Ending cash and cash equivalents	\$ 551,800	\$ 570,099	\$ 179,097	\$ 137,531	\$ 1,438,527

NOTE 10 - PENSION

The Township has adopted a defined contribution pension plan covering all full-time employees. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, are not on leave of absence and have attained age twenty-one.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Contributions made by the Township vest immediately. The Township is required to contribute an amount equal to 10% of the employee's gross earnings.

During the year, the Township's required and actual contributions amounted to \$53,232, which was 10% of its current-year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township.

NOTE 11 - RETIREMENT SYSTEM - MERS OPERATEDPlan Description

The Township's defined benefit pension plan, covering its police union employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 11 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)Funding Policy

The Township is required to contribute at an actuarially determined rate. The current rate is 6.13% of annual covered payroll for the Police Chief and 15.75% for all other employees. The contribution requirements of the plan members is 1% of their annual compensation. If a member leaves the employ of the Township, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (plus interest at a rate determined by MERS) will be refunded to the member, if living, or to the member's beneficiary.

Annual Pension Cost

For 2005, the Township's annual pension cost of \$72,321 was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation component. The Township's net pension obligation has been calculated and accrued at December 31, 2005.

The Township has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2004Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$	690,985
Terminated employees not yet receiving benefits		52,947
Current employees -		
Accumulated employee contributions including allocated investment income		373,489
Employer financed		<u>1,182,948</u>
Total Actuarial Accrued Liability		2,300,369
Net assets available for benefits, at actuarial value (Market value is \$1,635,989)		<u>1,676,014</u>
Unfunded Actuarial Accrued Liability	\$	<u><u>624,355</u></u>

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$ 57,508	100%	\$ 0
12/31/04	\$ 80,817	100%	\$ 0
12/31/05	\$ 72,321	100%	\$ 0

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005NOTE 11 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/02	\$1,362,638	\$1,645,351	\$ 282,713	83%	\$ 473,209	60%
12/31/03	\$1,516,718	\$2,091,122	\$ 574,404	73%	\$ 527,360	109%
12/31/04	\$1,676,014	\$2,300,369	\$ 624,355	73%	\$ 487,227	128%

NOTE 12 - DEFERRED COMPENSATION PLAN

The Township offers to its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Township for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Township's financial statements.

NOTE 13 - LEASE COMMITMENTSOld Orchard Park

The Township has entered into a lease agreement with Consumers Energy for the rental of Old Orchard Park Campground and boating access facilities. The lease is for a period of 20 years at an amount not to exceed \$5,000 per year based on expenses lessor has incurred in administering the terms of the lease. In addition, the Township shall pay all taxes, assessments and other public charges levied on the leased premises during each year that the lease is in effect. The Township must also contribute \$45,000 per year to a capital improvement account until a maximum balance of \$200,000 is achieved. Upon termination of this lease, any balance remaining in this capital account becomes the property of Consumers Energy.

NOTE 14 - UNEMPLOYMENT COMPENSATION

The Charter Township of Oscoda has elected, under the Michigan Employment Security Act, to be a reimbursing employer. In making this election, the Township has warranted that it will reimburse the State for all benefits paid by the State to qualified individuals for unemployment compensation.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 15 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits claims, general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
<u>Taxes</u>				
Current property taxes	\$ 1,113,700	\$ 1,113,700	\$ 1,113,573	\$ (127)
Other taxes	15,200	15,200	14,256	(944)
Penalties and interest on delinquent taxes	2,800	2,800	2,697	(103)
Collection fees	75,000	94,812	95,740	928
	<u>1,206,700</u>	<u>1,226,512</u>	<u>1,226,266</u>	<u>(246)</u>
Special Assessments	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>(30,000)</u>
Federal Grants	<u>0</u>	<u>71,700</u>	<u>72,741</u>	<u>1,041</u>
State Revenue Sharing and Grants	<u>595,000</u>	<u>585,000</u>	<u>610,459</u>	<u>25,459</u>
Private Contributions	<u>3,000</u>	<u>10,000</u>	<u>10,364</u>	<u>364</u>
<u>Charges for Services</u>				
Fire and cemetery - other units	71,280	71,280	73,228	1,948
Grave openings	6,500	6,500	6,102	(398)
Miscellaneous	37,550	34,050	49,576	15,526
	<u>115,330</u>	<u>111,830</u>	<u>128,906</u>	<u>17,076</u>
<u>Licenses and Permits</u>				
Licenses	0	0	41	41
Land division fees	300	300	700	400
Trailer fees	100	100	0	(100)
Zoning fees	6,500	6,500	5,780	(720)
	<u>6,900</u>	<u>6,900</u>	<u>6,521</u>	<u>(379)</u>
<u>Interest and Rentals</u>				
Interest earned	18,000	40,000	43,884	3,884
Rents and royalties	30,000	31,000	33,924	2,924
	<u>48,000</u>	<u>71,000</u>	<u>77,808</u>	<u>6,808</u>
Other Revenue	<u>24,950</u>	<u>30,188</u>	<u>31,783</u>	<u>1,595</u>
Total Revenue	<u>1,999,880</u>	<u>2,143,130</u>	<u>2,164,848</u>	<u>21,718</u>
<u>Expenditures</u>				
<u>General Government</u>				
Township Board:				
Salaries, wages and fees	14,900	14,900	14,840	60
Payroll taxes and benefits	1,200	1,200	1,135	65
Operating expenditures	1,250	2,950	2,103	847
Contingency	400	400	0	400
	<u>17,750</u>	<u>19,450</u>	<u>18,078</u>	<u>1,372</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Expenditures (Continued)</u>				
<u>General Government (Continued)</u>				
Township Supervisor:				
Salaries, wages and fees	\$ 13,260	\$ 13,260	\$ 13,016	\$ 244
Payroll taxes and benefits	1,090	1,090	1,019	71
Operating expenditures	3,600	3,600	1,244	2,356
Contractual services	100	100	0	100
Contingency	650	0	0	0
	<u>18,700</u>	<u>18,050</u>	<u>15,279</u>	<u>2,771</u>
Superintendent:				
Salaries, wages and fees	89,235	89,235	88,810	425
Payroll taxes and benefits	38,875	43,625	42,758	867
Operating expenditures	8,600	7,600	4,479	3,121
Contractual services	150	150	0	150
Contingency	250	250	0	250
	<u>137,110</u>	<u>140,860</u>	<u>136,047</u>	<u>4,813</u>
Elections:				
Salaries, wages and fees	8,300	3,450	3,199	251
Payroll taxes and benefits	500	200	115	85
Operating expenditures	8,900	2,800	2,892	(92)
Contractual services	825	175	139	36
Contingency	500	0	0	0
	<u>19,025</u>	<u>6,625</u>	<u>6,345</u>	<u>280</u>
Assessor:				
Operating expenditures	11,975	11,975	10,670	1,305
Contractual services	158,300	158,300	148,135	10,165
Contingency	350	350	0	350
	<u>170,625</u>	<u>170,625</u>	<u>158,805</u>	<u>11,820</u>
Board of Review:				
Salaries, wages and fees	2,450	2,550	2,010	540
Payroll taxes and benefits	250	250	171	79
Operating expenditures	300	300	165	135
Contingency	100	0	0	0
	<u>3,100</u>	<u>3,100</u>	<u>2,346</u>	<u>754</u>
Township Clerk:				
Salaries, wages and fees	81,160	84,160	82,167	1,993
Payroll taxes and benefits	29,575	38,475	37,929	546
Operating expenditures	6,550	7,350	6,471	879
Contractual services	2,750	3,450	3,001	449
Contingency	500	500	0	500
	<u>120,535</u>	<u>133,935</u>	<u>129,568</u>	<u>4,367</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Expenditures (Continued)</u>				
<u>General Government (Continued)</u>				
Township Treasurer:				
Salaries, wages and fees	\$ 77,640	\$ 77,640	\$ 75,122	\$ 2,518
Payroll taxes and benefits	30,030	30,030	28,489	1,541
Operating expenditures	17,250	16,250	11,580	4,670
Contractual services	1,400	6,000	4,002	1,998
Contingency	500	500	0	500
	<u>126,820</u>	<u>130,420</u>	<u>119,193</u>	<u>11,227</u>
Township Cemetery:				
Salaries, wages and fees	39,290	39,290	39,247	43
Payroll taxes and benefits	1,450	1,450	1,222	228
Operating expenditures	20,855	20,855	13,381	7,474
Contingency	750	750	0	750
	<u>62,345</u>	<u>62,345</u>	<u>53,850</u>	<u>8,495</u>
Buildings and Grounds				
Salaries, wages and fees	50,215	42,475	39,234	3,241
Payroll taxes and benefits	23,475	14,775	11,897	2,878
Operating expenditures	149,800	137,817	130,025	7,792
Contractual services	750	750	80	670
Contingency	5,000	0	0	0
	<u>229,240</u>	<u>195,817</u>	<u>181,236</u>	<u>14,581</u>
Other Costs Not Allocated:				
Payroll taxes and benefits	500	500	0	500
Operating expenditures	86,325	57,125	47,658	9,467
Contractual services	58,450	67,171	52,358	14,813
Community promotion and dues	23,500	35,000	34,379	621
State reverted lands	500	500	0	500
Contingency	30,000	10,000	0	10,000
	<u>199,275</u>	<u>170,296</u>	<u>134,395</u>	<u>35,901</u>
Total General Government	<u>1,104,525</u>	<u>1,051,523</u>	<u>955,142</u>	<u>96,381</u>
<u>Public Safety</u>				
Fire Department:				
Salaries, wages and fees	102,100	97,650	92,217	5,433
Payroll taxes and benefits	11,740	12,250	11,011	1,239
Operating expenditures	112,700	161,932	152,437	9,495
Contractual services	300	750	613	137
Contingency	2,000	1,700	0	1,700
Total Public Safety	<u>228,840</u>	<u>274,282</u>	<u>256,278</u>	<u>18,004</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND

For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Expenditures (Continued)</u>				
<u>Public Works</u>				
Highways and Streets:				
Roads, maintenance and equipment	\$ 47,500	\$ 89,500	\$ 89,848	\$ (348)
Street Lighting:				
Public utilities	81,375	85,375	82,226	3,149
Sanitary Landfill (Dump)				
Contracted services	5,500	4,500	4,337	163
Total Public Works	134,375	179,375	176,411	2,964
<u>Community and Economic Development</u>				
Planning Commission (Zoning):				
Salaries, wages and fees	34,030	34,030	33,375	655
Payroll taxes and benefits	16,875	16,875	15,925	950
Operating expenditures	7,025	6,625	3,126	3,499
Contractual services	18,150	25,150	21,987	3,163
Contingency	1,000	0	0	0
Total Community and Economic Development	77,080	82,680	74,413	8,267
<u>Recreation and Cultural</u>				
Salaries, wages and fees	77,570	75,470	68,019	7,451
Payroll taxes and benefits	41,975	44,175	41,901	2,274
Operating expenditures	220,250	65,600	47,244	18,356
Contractual services	2,500	2,500	3,176	(676)
Capital outlay	1,000	700	0	700
Contingency	1,000	0	0	0
Total Recreation and Cultural	344,295	188,445	160,340	28,105
<u>Capital Outlay</u>				
General government	500	126,427	125,460	967
Public safety	2,500	37,003	36,843	160
Recreation and cultural	5,750	3,750	0	3,750
Total Capital Outlay	8,750	167,180	162,303	4,877
Total Expenditures	1,897,865	1,943,485	1,784,887	158,598
Excess of revenue over expenditures	102,015	199,645	379,961	180,316
<u>Other Financing Sources (Uses)</u>				
Sale of capital assets	1,000	8,000	8,578	578
Operating transfers in	451,500	301,500	301,500	0
Operating transfers out	(718,315)	(716,315)	(688,315)	28,000
Total other financing sources (uses)	(265,815)	(406,815)	(378,237)	28,578

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Excess of revenue and other sources over (under) expenditures and other uses	\$ (163,800)	\$ (207,170)	\$ 1,724	\$ 208,894
Fund balances - beginning of year	<u>1,330,925</u>	<u>1,330,925</u>	<u>1,330,925</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,167,125</u>	<u>\$ 1,123,755</u>	<u>\$ 1,332,649</u>	<u>\$ 208,894</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 POLICE FUND - SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal grants	\$ 0	\$ 0	\$ 3,813	\$ 3,813
State grants and revenue	9,400	9,400	10,695	1,295
Contributions from local units	0	18,750	2,835	(15,915)
Private contributions	0	5,000	5,000	0
Charges for services	193,908	193,908	194,817	909
Interest and rentals	1,200	5,000	6,545	1,545
Fines and forfeits	2,000	2,000	1,673	(327)
Other revenue	<u>2,000</u>	<u>2,000</u>	<u>3,530</u>	<u>1,530</u>
Total revenue	<u>208,508</u>	<u>236,058</u>	<u>228,908</u>	<u>(7,150)</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Police department:				
Salaries, wages and fees	537,170	549,050	512,761	36,289
Payroll taxes and benefits	232,850	236,250	229,965	6,285
Operating expenses	117,300	114,900	91,680	23,220
Contracted services	29,500	19,295	13,804	5,491
Contingency	8,000	20,000	0	20,000
Capital outlay	<u>44,000</u>	<u>21,000</u>	<u>20,731</u>	<u>269</u>
Total expenditures	<u>968,820</u>	<u>960,495</u>	<u>868,941</u>	<u>91,554</u>
Excess of revenue over (under) expenditures	<u>(760,312)</u>	<u>(724,437)</u>	<u>(640,033)</u>	<u>84,404</u>
Other Financing Sources:				
Sale of capital assets	0	16,500	16,879	379
Operating transfers in	<u>660,312</u>	<u>660,312</u>	<u>660,315</u>	<u>3</u>
Total other financing sources	<u>660,312</u>	<u>676,812</u>	<u>677,194</u>	<u>382</u>
Excess of revenue and other sources over (under) expenditures	(100,000)	(47,625)	37,161	84,786
Fund balances - beginning of year	<u>271,939</u>	<u>271,939</u>	<u>271,939</u>	<u>0</u>
Fund balances - end of year	<u>\$ 171,939</u>	<u>\$ 224,314</u>	<u>\$ 309,100</u>	<u>\$ 84,786</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 PROPERTY OPERATION AND MAINTENANCE FUND - SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Charges for services	\$ 36,000	\$ 27,700	\$ 32,849	\$ 5,149
Interest and rentals	257,345	293,090	241,698	(51,392)
Other revenue	0	150	115	(35)
Total revenue	<u>293,345</u>	<u>320,940</u>	<u>274,662</u>	<u>(46,278)</u>
<u>Expenditures</u>				
<u>Community and Economic Development</u>				
Salaries, wages and fees	74,400	51,000	44,136	6,864
Payroll taxes and benefits	23,300	15,100	12,743	2,357
Operating expenses	236,350	233,934	155,861	78,073
Contracted services	142,600	21,000	17,338	3,662
Capital outlay	8,000	78,416	76,416	2,000
Total expenditures	<u>484,650</u>	<u>399,450</u>	<u>306,494</u>	<u>92,956</u>
Excess of revenue over (under) expenditures	<u>(191,305)</u>	<u>(78,510)</u>	<u>(31,832)</u>	<u>46,678</u>
Other Financing Sources (Uses):				
Sale of capital assets	450,000	72,750	118,197	45,447
Operating transfers in	0	14,900	14,941	41
Operating transfers out	<u>(258,695)</u>	<u>(108,695)</u>	<u>(108,695)</u>	<u>0</u>
Total other financing sources (uses)	<u>191,305</u>	<u>(21,045)</u>	<u>24,443</u>	<u>45,488</u>
Excess of revenue and other sources over (under) expenditures and other uses	0	(99,555)	(7,389)	92,166
Fund balances - beginning of year	<u>1,061,122</u>	<u>1,061,122</u>	<u>1,061,122</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,061,122</u>	<u>\$ 961,567</u>	<u>\$ 1,053,733</u>	<u>\$ 92,166</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 OFFICE OF ECONOMIC ADJUSTMENT FUND - SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Interest and rentals	\$ 1,000	\$ 2,400	\$ 2,701	\$ 301
Other revenue	200	0	0	0
Total revenue	<u>1,200</u>	<u>2,400</u>	<u>2,701</u>	<u>301</u>
<u>Expenditures</u>				
<u>Community and Economic Development</u>				
Salaries, wages and fees	62,305	61,005	59,861	1,144
Payroll taxes and benefits	22,045	22,045	19,563	2,482
Operating expenses	26,850	21,550	18,429	3,121
Contracted Services	49,500	35,500	32,675	2,825
Contribution to local unit	0	515,000	512,000	3,000
Contingency	3,500	2,000	0	2,000
Total expenditures	<u>164,200</u>	<u>657,100</u>	<u>642,528</u>	<u>14,572</u>
Excess of revenue over (under) expenditures	<u>(163,000)</u>	<u>(654,700)</u>	<u>(639,827)</u>	<u>14,873</u>
Other Financing Sources:				
Operating transfers in	<u>143,000</u>	<u>654,700</u>	<u>651,700</u>	<u>(3,000)</u>
Excess of revenue and other sources over (under) expenditures	(20,000)	0	11,873	11,873
Fund balances - beginning of year	<u>90,546</u>	<u>90,546</u>	<u>90,546</u>	<u>0</u>
Fund balances - end of year	<u>\$ 70,546</u>	<u>\$ 90,546</u>	<u>\$ 102,419</u>	<u>\$ 11,873</u>

OTHER INFORMATION

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
December 31, 2005

	Forest Reserve Fund	Public Improvement Fund	Base Closure Fund	CDBG Renaissance Fund	Old Orchard Park Improvement Fund	Stabilization Fund	Lakefront District Improvement Fund	Library Fund	Streetscape Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>										
Cash and cash equivalents	\$ 23,139	\$ 81,270	\$ 34,062	\$ 57,319	\$ 79,115	\$ 5,182	\$ 13,896	\$ 83,826	\$ 38,339	\$ 416,148
Investments	3,693	110,868	0	0	0	126,337	0	14,601	0	255,499
Receivables:										
Special assessments	0	0	0	0	0	0	0	0	23,480	23,480
Due from other funds	0	0	0	0	0	0	0	0	4,337	4,337
Restricted assets:										
Cash and cash equivalents	0	63,774	102,131	0	0	0	0	0	0	165,905
Investments	0	135,825	617,635	0	0	0	0	0	0	753,460
Total Assets	<u>\$ 26,832</u>	<u>\$ 391,737</u>	<u>\$ 753,828</u>	<u>\$ 57,319</u>	<u>\$ 79,115</u>	<u>\$ 131,519</u>	<u>\$ 13,896</u>	<u>\$ 98,427</u>	<u>\$ 66,156</u>	<u>\$ 1,618,829</u>
<u>LIABILITIES AND FUND EQUITY</u>										
<u>Liabilities</u>										
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 57,319	\$ 0	\$ 0	\$ 0	\$ 1,735	\$ 0	\$ 59,054
Due to state	0	0	0	0	0	0	0	150	0	150
Due to other funds	0	0	0	0	940	0	0	0	0	940
Deferred revenue	0	0	0	0	0	0	0	0	56,986	56,986
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,319</u>	<u>940</u>	<u>0</u>	<u>0</u>	<u>1,885</u>	<u>56,986</u>	<u>117,130</u>
<u>Fund Equity</u>										
Fund balances:										
Reserved for:										
Cemetery	0	199,449	0	0	0	0	0	0	0	199,449
Future developments	0	0	719,766	0	0	0	0	0	0	719,766
Debt service	0	0	0	0	0	0	0	0	9,170	9,170
Unreserved, reported in:										
Special revenue funds	<u>26,832</u>	<u>192,288</u>	<u>34,062</u>	<u>0</u>	<u>78,175</u>	<u>131,519</u>	<u>13,896</u>	<u>96,542</u>	<u>0</u>	<u>573,314</u>
Total fund equity	<u>26,832</u>	<u>391,737</u>	<u>753,828</u>	<u>0</u>	<u>78,175</u>	<u>131,519</u>	<u>13,896</u>	<u>96,542</u>	<u>9,170</u>	<u>1,501,699</u>
Total Liabilities and Fund Equity	<u>\$ 26,832</u>	<u>\$ 391,737</u>	<u>\$ 753,828</u>	<u>\$ 57,319</u>	<u>\$ 79,115</u>	<u>\$ 131,519</u>	<u>\$ 13,896</u>	<u>\$ 98,427</u>	<u>\$ 66,156</u>	<u>\$ 1,618,829</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

	Forest Reserve Fund	Public Improvement Fund	Base Closure Fund	CDBG Renaissance Fund	Old Orchard Park Improvement Fund	Stabilization Fund	Lakefront District Improvement Fund	Library Fund	Streetscape Debt Service Fund	Total Other Governmental Funds
<u>Revenue</u>										
Special assessments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 26,631	\$ 26,631
Federal grants	6,428	0	0	284,927	0	0	0	0	0	291,355
Contributions from local units	0	0	0	0	0	0	0	75,570	0	75,570
Private contributions	0	0	0	0	0	0	0	2,100	0	2,100
Charges for services	0	9,450	0	0	0	0	0	0	0	9,450
Interest and rentals	638	10,201	21,835	0	1,416	4,203	5,974	2,438	9,763	56,468
Other revenue	0	0	0	0	0	0	0	251	17	268
Total revenue	<u>7,066</u>	<u>19,651</u>	<u>21,835</u>	<u>284,927</u>	<u>1,416</u>	<u>4,203</u>	<u>5,974</u>	<u>80,359</u>	<u>36,411</u>	<u>461,842</u>
<u>Expenditures</u>										
Current:										
Community and economic development	0	0	3,667	284,927	0	0	16,941	0	0	305,535
Recreation and cultural	0	0	0	0	536	0	0	92,150	0	92,686
Capital outlay	0	18,245	0	0	0	0	0	0	0	18,245
Debt service:										
Principal	0	14,741	0	0	0	0	11,284	0	30,000	56,025
Interest and fiscal charges	0	2,816	0	0	0	0	2,525	0	8,758	14,099
Total expenditures	<u>0</u>	<u>35,802</u>	<u>3,667</u>	<u>284,927</u>	<u>536</u>	<u>0</u>	<u>30,750</u>	<u>92,150</u>	<u>38,758</u>	<u>486,590</u>
Excess of revenue over (under) expenditures	<u>7,066</u>	<u>(16,151)</u>	<u>18,168</u>	<u>0</u>	<u>880</u>	<u>4,203</u>	<u>(24,776)</u>	<u>(11,791)</u>	<u>(2,347)</u>	<u>(24,748)</u>
Other Financing Sources (Uses):										
Operating transfers in	0	28,000	68,695	0	45,000	0	0	22,150	0	163,845
Operating transfers out	0	0	(221,850)	0	(15,112)	(100,000)	0	0	0	(336,962)
Total other financing sources (uses)	<u>0</u>	<u>28,000</u>	<u>(153,155)</u>	<u>0</u>	<u>29,888</u>	<u>(100,000)</u>	<u>0</u>	<u>22,150</u>	<u>0</u>	<u>(173,117)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>7,066</u>	<u>11,849</u>	<u>(134,987)</u>	<u>0</u>	<u>30,768</u>	<u>(95,797)</u>	<u>(24,776)</u>	<u>10,359</u>	<u>(2,347)</u>	<u>(197,865)</u>
Fund balances - beginning of year	<u>19,766</u>	<u>379,888</u>	<u>888,815</u>	<u>0</u>	<u>47,407</u>	<u>227,316</u>	<u>38,672</u>	<u>86,183</u>	<u>11,517</u>	<u>1,699,564</u>
Fund balances - end of year	<u>\$ 26,832</u>	<u>\$ 391,737</u>	<u>\$ 753,828</u>	<u>\$ 0</u>	<u>\$ 78,175</u>	<u>\$ 131,519</u>	<u>\$ 13,896</u>	<u>\$ 96,542</u>	<u>\$ 9,170</u>	<u>\$ 1,501,699</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF NET ASSETS
 OTHER PROPRIETARY FUNDS
December 31, 2005

	Enterprise Funds			Total
	Health and Community Center Fund	Housing Fund	Exposition Center Fund	
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 57,312	\$ 80,219	\$ 0	\$ 137,531
Investments	0	1,248,910	0	1,248,910
Receivables:				
Accounts, net	40	0	0	40
Due from other funds	1,427	0	0	1,427
Total current assets	58,779	1,329,129	0	1,387,908
Noncurrent assets:				
Capital assets, net	82,970	0	0	82,970
Total Assets	141,749	1,329,129	0	1,470,878
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	8,568	0	0	8,568
Due to state	179	0	0	179
Deferred revenue	5	0	0	5
Total current liabilities	8,752	0	0	8,752
Noncurrent liabilities:				
Accrued compensated absences payable	439	0	0	439
Total Liabilities	9,191	0	0	9,191
<u>Net Assets</u>				
Investment in capital assets, net of related debt	82,970	0	0	82,970
Unrestricted	49,588	1,329,129	0	1,378,717
Total Net Assets	\$ 132,558	\$ 1,329,129	\$ 0	\$ 1,461,687

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

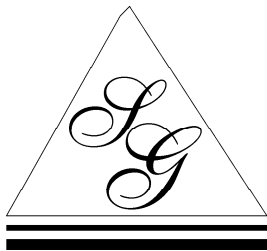
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 OTHER PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Enterprise Funds			
	Health and Community Center Fund	Housing Fund	Exposition Center Fund	Total
Operating Revenue:				
Charges for services	\$ 41,071	\$ 0	\$ 0	\$ 41,071
User fees	2,867	0	0	2,867
Housing sales	0	40,070	0	40,070
Rents	8,518	0	0	8,518
Other	156	0	0	156
Total operating revenue	<u>52,612</u>	<u>40,070</u>	<u>0</u>	<u>92,682</u>
Operating Expenses:				
Salaries and wages	37,473	0	0	37,473
Payroll taxes and fringe benefits	3,690	34	0	3,724
Office and operating supplies	12,974	0	0	12,974
Communications	1,438	0	0	1,438
Professional fees and services	5,479	2,803	0	8,282
Insurance and bonds	4,590	0	0	4,590
Repair and maintenance	6,318	0	0	6,318
Utilities	41,820	0	0	41,820
Depreciation	4,464	0	0	4,464
Other	7	0	0	7
Total operating expenses	<u>118,253</u>	<u>2,837</u>	<u>0</u>	<u>121,090</u>
Operating income (loss)	(65,641)	37,233	0	(28,408)
Non-operating Revenue:				
Interest earned on investments	<u>1,252</u>	<u>46,757</u>	<u>0</u>	<u>48,009</u>
Income (loss) before operating transfers	<u>(64,389)</u>	<u>83,990</u>	<u>0</u>	<u>19,601</u>
Other Financing Sources (Uses):				
Operating transfers in	60,000	0	0	60,000
Operating transfers out	<u>0</u>	<u>(512,000)</u>	<u>(14,941)</u>	<u>(526,941)</u>
Total other financing sources (uses)	<u>60,000</u>	<u>(512,000)</u>	<u>(14,941)</u>	<u>(466,941)</u>
Change in net assets	(4,389)	(428,010)	(14,941)	(447,340)
Net assets - beginning of year	<u>136,947</u>	<u>1,757,139</u>	<u>14,941</u>	<u>1,909,027</u>
Net assets - end of year	<u>\$ 132,558</u>	<u>\$ 1,329,129</u>	<u>\$ 0</u>	<u>\$ 1,461,687</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF CASH FLOWS
 OTHER PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Enterprise Funds			
	Health and Community Center Fund	Housing Fund	Exposition Center Fund	Total
<u>Cash Flows From Operating Activities</u>				
Cash received from customers	\$ 52,617	\$ 40,070	\$ 0	\$ 92,687
Cash payments to suppliers and employees	(113,249)	(8,758)	0	(122,007)
Net cash provided (used) by operating activities	(60,632)	31,312	0	(29,320)
<u>Cash Flows From Non-Capital Financing Activities</u>				
Cash received from (paid to) other funds	58,473	(512,000)	(14,941)	(468,468)
<u>Cash Flows From Investing Activities</u>				
Interest on investments	1,252	46,757	0	48,009
Redemption of investment securities	0	166,918	0	166,918
Net cash provided by investing activities	1,252	213,675	0	214,927
Net decrease in cash and cash equivalents	(907)	(267,013)	(14,941)	(282,861)
Cash and cash equivalents at beginning of year	58,219	347,232	14,941	420,392
Cash and cash equivalents at end of year	\$ 57,312	\$ 80,219	\$ 0	\$ 137,531
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>				
Operating income (loss)	\$ (65,641)	\$ 37,233	\$ 0	(28,408)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	4,464	0	0	4,464
Change in assets and liabilities:				
Accounts and other payables	2,469	(5,921)	0	(3,452)
Due to state	(2,018)	0	0	(2,018)
Deferred revenue	5	0	0	5
Accrued compensated absences	89	0	0	89
Net cash provided (used) by operating activities	\$ (60,632)	\$ 31,312	\$ 0	\$ (29,320)



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 27, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated February 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter Township of Oscoda's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Township of Oscoda's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 27, 2006

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Charter Township of Oscoda for the year ended December 31, 2005, and have issued our report thereon dated February 27, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 27, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Charter Township of Oscoda's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Charter Township of Oscoda's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of Oscoda are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Charter Township of Oscoda during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Charter Township of Oscoda's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Charter Township of Oscoda, either individually or in the aggregate, indicate matters that could have a significant effect on the Charter Township of Oscoda's financial reporting process.

Members of the Township Board
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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter Township of Oscoda's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

In planning and performing our audit of the financial statements of the Charter Township of Oscoda for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls, we offer the following recommendations for consideration.

Investment Policy

A new investment policy needs to be adopted to conform with recent changes in governmental disclosure standards. We provided a sample policy to the Treasurer.

Old Orchard Park

Currently, the Township Board is not provided with periodic information on the Old Orchard Park's camping fees during the year. We recommend that the Old Orchard Park management prepare a monthly camper report for review by the Township Board. This monthly report should summarize the number of campers, the number of camper days, and the amount of camper fees collected for the current month as well as year to date. This report not only will provide the Township Board with information to help monitor camper activity on a monthly basis, but also a means of reconciling back to the general ledger activity.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.